MAKANA
MUNICIPALITY | EASTERN CAPE
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Makana Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	EC 104 - Local Municipality The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000 and various other acts and regulations.
Nature of business and principal activities	Local Government
Mayoral committee	
Executive Mayor	Cllr N Gaga
Speaker	Cllr Y Vara
	Cllr M Matyumza
MPAC Chairperson	Cllr RM Xonxa
	Cllr TF Bruintjies
	Cllr C Clark
	Cllr B Fargher
	Cllr M Fatyi
	Cllr T Gaushe
	Cllr M Gojela
	Cllr DB Holm
	Cllr B Jackson
	Cllr M Khubalo
	Cllr E Louw
	Cllr XG Madyo
	Cllr N Masoma
	Cllr P Matyumza
	Cllr AJ Meyer
	Cllr M Moya
	Cllr N Mtwa
	Cllr L Nase
	Cllr MA Nhanha
	Cllr NM Pieters
	Cllr M Qotoyi
	Cllr L Sakata
	Cllr T Seyisi
	Cllr S Sodladla
Grading of local authority	Category B
Acting Chief Finance Officer (CFO)	Ms CL Mani
Municipal Manager	Mr M Mene
Registered office	City Hall 86 High Street Grahamstown 6139
Postal address	P O Box 176 Grahamstown 6140
Bankers	First National Bank
Auditors	Auditor-General South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data. The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, he sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across. The financial statements which have been prepared on the going concern basis, were signed on municipality's behalf by the accounting officer. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and that the Makana municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality. The external auditors are responsible for independently expressing an opinion and reporting on the municipality's financial statements.

The financial statements which have been prepared on the going-concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

Mr M Mene
Municipal Manager

AUDITOR - GENERAL
SOUTH AFRICA
25 JAN 2019

Statement of Financial Position as at 30 June 2018

	Notes	2018 R	2017 Restated* R
Assets			
Current Assets			
Inventories	2	7 412 300	6 863 354
Receivables from exchange transactions	3	17 607 518	46 135 276
Receivables from non-exchange transactions	4	17 479 410	25 685 451
Cash and cash equivalents	5	13 535 574	12 943 044
		56 034 802	**91 627 125**
Non-Current Assets			
Property, plant and equipment	6	832 400 928	826 850 234
Intangible assets	7	494 106	571 076
Heritage assets	8	33 364 868	33 364 868
Investment property	9	184 470 390	184 590 291
		1 050 730 292	**1 045 376 469**
Total Assets		**1 106 765 094**	**1 137 003 594**
Liabilities			
Current Liabilities			
Consumer deposits	10	3 238 016	2 956 701
Payables from exchange transactions	11	191 629 198	188 854 800
Payables from non- exchange transactions	12	17 307 350	23 718 906
Unspent conditional grants and receipts	13	5 743 576	12 701 549
VAT payable	14	36 157 319	17 813 139
Other financial liabilities	15	1 205 621	1 084 861
Employee benefit obligation	16	4 320 441	2 679 520
		259 601 521	**249 809 476**
Non-Current Liabilities			
Other financial liabilities	15	53 541 893	54 747 514
Employee benefit obligation	16	74 529 655	74 370 093
Provisions	17	32 683 738	31 094 139
		160 755 286	**160 211 746**
Total Liabilities		**420 356 807**	**410 021 222**
Net Assets		**686 408 287**	**726 982 372**
Net Assets			
Accumulated surplus		686 408 287	726 982 372

AUDITOR - GENERAL
SOUTH AFRICA
25 JAN 2019

Statement of Financial Performance for the year ended 30 June 2018

	Notes	2018 R	2017 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	18	224 896 527	230 147 837
Rental of facilities and equipment	19	1 742 600	1 279 556
Interest received on debtors	20	19 879 427	18 731 054
Agency services		-	811 088
Licences and permits		2 642 116	2 360 169
Other income	21	2 272 979	9 921 286
Interest received - investment	20	991 024	1 086 258
Total revenue from exchange transactions		**252 424 673**	**264 337 248**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	66 277 505	62 565 920
Transfer revenue			
Government grants & subsidies	23	131 333 499	114 305 115
Public contributions and donations		9 668 960	-
Fines, penalties and forfeits		382 535	492 265
Total revenue from non-exchange transactions		**207 662 499**	**177 363 300**
Total revenue	24	**460 087 172**	**441 700 548**
Expenditure			
Employee related costs	25	(157 569 005)	(178 486 595)
Remuneration of councillors	26	(10 314 585)	(9 636 574)
Depreciation and amortisation	27	(29 479 044)	(30 591 146)
Finance costs	28	(23 504 582)	(33 371 263)
Lease rentals on operating lease		(1 552 511)	(2 051 496)
Debt Impairment	29	(109 387 553)	(30 414 766)
Repairs and maintenance	30	(7 946 558)	(9 715 670)
Bulk purchases	31	(114 507 604)	(116 134 896)
Contracted services	32	(19 359 146)	(39 900 756)
Grants and subsidies	33	(2 678 265)	(23 279 941)
General expenses	34	(29 231 145)	(41 786 727)
Total expenditure		**(505 529 998)**	**(515 369 830)**
Operating deficit		**(45 442 826)**	**(73 669 282)**
Loss on disposal of assets and liabilities		(1 086 217)	(1 243 659)
Actuarial gains/losses	16	6 108 498	10 394 900
		5 022 281	**9 151 241**
Deficit for the year		**(40 420 545)**	**(64 518 041)**

Statement of Changes in Net Assets for the year ended 30 June 2018

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	768 429 469	768 429 469
Adjustments		
Prior year adjustments	23 070 944	23 070 944
Balance at 01 July 2016 as restated*	**791 500 413**	**791 500 413**
Changes in net assets		
Deficit for the year	(64 518 041)	(64 518 041)
Total changes	(64 518 041)	(64 518 041)
	726 828 832	**726 828 832**
Changes in net assets		
Surplus for the year	(40 420 545)	(40 420 545)
Total changes	(40 420 545)	(40 420 545)
Balance at 30 June 2018	**686 408 287**	**686 408 287**

AUDITOR - GENERAL
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Cash Flow Statement for the year ended 30 June 2018

	Notes	2018 R	2017 Restated* R
Cash flows from operating activities			
Receipts			
Cash receipts from customers		253 573 648	301 236 491
Grants		131 333 499	114 305 115
Interest income		991 024	1 086 258
Interest received		20 870 451	-
		406 768 622	416 627 864
Payments			
Employee costs		(164 493 508)	(189 261 454)
Suppliers		(160 545 248)	(251 824 711)
Other payments		(23 504 582)	-
		(348 543 338)	(441 086 165)
Net cash flows from (used in) operating activities	36	**58 225 284**	**(24 458 301)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(35 745 100)	33 013 700
Proceeds from sale of property, plant and equipment	6	143 302	-
Purchase of other intangible assets	7	(75 644)	(350 000)
Net cash flows used in investing activities		**(56 547 893)**	**32 663 700**
Cash flows from financing activities			
(Repayment)/Proceeds from long term loan		(1 084 861)	(526 025)
Distributions to owners		20 870 451	-
Net cash flows from financing activities			**(526 025)**
Net increase/(decrease) in cash and cash equivalents		**592 530**	**7 679 374**
Cash and cash equivalents at the beginning of the year		12 943 044	5 263 670
Cash and cash equivalents at the end of the year	5	**13 535 574**	**12 943 044**

Statement of Comparison of Budget and Actual Amounts

Budget on Acrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	193 062 000	-	**193 062 000**	224 896 527	**31 834 527**	Note 43
Rental of facilities and equipment	1 425 000	-	**1 425 000**	1 742 600	**317 600**	Note 43
Interest received (trading)	12 065 000	-	**12 065 000**	19 879 427	**7 814 427**	Note 43
Licences and permits	4 009 000	-	**4 009 000**	2 642 116	**(1 366 884)**	Note 43
Other income - (rollup)	57 819 000	-	**57 819 000**	2 272 979	**(55 546 021)**	Note 43
Interest received - investment	500 000	-	**500 000**	991 024	**491 024**	Note 43
Total revenue from exchange transactions	**268 880 000**	**-**	**268 880 000**	**252 424 673**	**(16 455 327)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	64 080 000	-	**64 080 000**	66 277 505	**2 197 505**	Note 43
Transfer revenue						
Government grants & subsidies	98 859 000	-	**98 859 000**	131 333 499	**32 474 499**	Note 43
Public contributions and donations	-	-	**-**	9 668 960	**9 668 960**	
Fines, Penalties and Forfeits	397 000	-	**397 000**	382 535	**(14 465)**	Note 43
Total revenue from non-exchange transactions	**163 336 000**	**-**	**163 336 000**	**207 662 499**	**44 326 499**	
Total revenue	**432 216 000**	**-**	**432 216 000**	**460 087 172**	**27 871 172**	
Expenditure						
Personnel	(167 803 000)	-	**(167 803 000)**	(157 569 005)	**10 233 995**	Note 43
Remuneration of councillors	(10 436 000)	-	**(10 436 000)**	(10 314 585)	**121 415**	Note 43
Depreciation and amortisation	(35 177 000)	-	**(35 177 000)**	(29 479 044)	**5 697 956**	Note 43
Finance costs	(6 600 000)	3 900 000	**(2 700 000)**	(23 504 582)	**(20 804 582)**	Note 43
Lease rentals on operating lease	(300 000)	-	**(300 000)**	(1 552 511)	**(1 252 511)**	Note 43
Impairment reversal	(7 500 000)	(7 500 000)	**(15 000 000)**	(109 387 553)	**(94 387 553)**	Note 43
Repairs and maintenance	(27 200 000)	14 200 000	**(13 000 000)**	(7 946 558)	**5 053 442**	Note 43
Bulk purchases	(101 050 000)	20 050 000	**(81 000 000)**	(114 507 604)	**(33 507 604)**	Note 43
Contracted Services	(13 655 000)	1 400 000	**(12 255 000)**	(19 359 146)	**(7 104 146)**	Note 43
Transfers and Subsidies	(3 376 000)	-	**(3 376 000)**	(2 678 265)	**697 735**	Note 43
General Expenses	(101 850 000)	10 681 000	**(91 169 000)**	(29 231 145)	**61 937 855**	Note 43
Total expenditure	**(474 947 000)**	**42 731 000**	**(432 216 000)**	**(505 529 998)**	**(73 313 998)**	
Operating deficit	**(42 731 000)**	**42 731 000**	**-**	**(45 442 826)**	**(45 442 826)**	
Transfers recognized - capital	42 731 000	-	**42 731 000**	(1 086 217)	**(43 817 217)**	Note 43
Actuarial gains/losses	-	-	**-**	6 108 498	**6 108 498**	Note 43
	42 731 000	**-**	**42 731 000**	**5 022 281**	**(37 708 719)**	
Deficit for the year	**-**	**42 731 000**	**42 731 000**	**(40 420 545)**	**(83 151 545)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**-**	**42 731 000**	**42 731 000**	**(40 420 545)**	**(83 151 545)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 600 000	-	**8 600 000**	7 412 300	**(1 187 700)**	Note 43
Receivables from non-exchange transactions	35 760 000	-	**35 760 000**	17 479 410	**(18 280 590)**	Note 43
Consumer debtors	225 176 000	-	**225 176 000**	17 607 518	**(207 568 482)**	Note 43
Cash and cash equivalents	17 858 000	-	**17 858 000**	13 535 574	**(4 322 426)**	Note 43
	287 394 000	-	**287 394 000**	**56 034 802**	**(231 359 198)**	
Non-Current Assets						
Investment property	184 500 000	-	**184 500 000**	184 470 390	**(29 610)**	Note 43
Property, plant and equipment	709 088 000	-	**709 088 000**	832 400 928	**123 312 928**	Note 43
Intangible assets	33 365 000	-	**33 365 000**	494 106	**(32 870 894)**	Note 43
Heritage assets	653 000	-	**653 000**	33 364 868	**32 711 868**	Note 43
	927 606 000	-	**927 606 000**	**1 060 730 292**	**123 124 292**	
Total Assets	**1 215 000 000**	-	**1 215 000 000**	**1 106 765 094**	**(108 234 906)**	
Liabilities						
Current Liabilities						
Other financial liabilities	3 500 000	-	**3 500 000**	1 205 621	**(2 294 379)**	Note 43
Payables from exchange transactions	141 137 000	-	**141 137 000**	191 629 198	**50 492 198**	Note 43
Taxes and transfers payable (non-exchange)	-	-	-	17 307 350	**17 307 350**	Note 43
VAT payable	30 000 000	-	**30 000 000**	36 157 319	**6 157 319**	Note 43
Consumer deposits	-	-	-	3 238 016	**3 238 016**	Note 43
Employee benefit obligation	-	-	-	4 320 441	**4 320 441**	Note 43
Unspent conditional grants and receipts	-	-	-	5 743 576	**5 743 576**	Note 43
	174 637 000	-	**174 637 000**	**259 601 521**	**84 964 521**	
Non-Current Liabilities						
Other financial liabilities	69 500 000	-	**69 500 000**	53 541 893	**(15 958 107)**	Note 43
Employee benefit obligation	-	-	-	74 529 655	**74 529 655**	Note 43
Provisions	10 900 000	-	**10 900 000**	32 683 738	**21 783 738**	Note 43
	80 400 000	-	**80 400 000**	**160 755 286**	**80 355 286**	
Total Liabilities	**255 037 000**	-	**255 037 000**	**420 356 807**	**165 319 807**	
Net Assets	**959 963 000**	-	**959 963 000**	**686 408 287**	**(273 554 713)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	959 963 000	-	**959 963 000**	686 408 287	(273 554 713)	Note 43

Accounting Policies for the year ended 30 June 2018

1. Presentation of Annual Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below

Standards

Standards Issued and Effective

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Accounting for Investments in Associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Properties
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 21	Impairment of Non-Cash Generating Assets
GRAP 23	Revenue from non-exchange transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits (Approved, early addoption)
GRAP 26	Impairment of Cash-Generating Assets
GRAP 27	(as revised 2012): Agriculture (Replaces GRAP 101)
GRAP 31	Intangible Assets (replace GRAP 102)
GRAP 100	Discontinued Operations
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments
GRAP 105	Transfer of Functions Between Entities Under Common Control
GRAP 106	Transfer of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

GRAP 20	Related Party Disclosures
GRAP 32	Service Concession Arrangements: Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in Associates and Joint Ventures
GRAP 37	Joint Arrangements
GRAP 38	Disclosure of Interests in Other Entities
GRAP 108	Statutory Receivables
GRAP 109	Accounting by Principals and Agents
GRAP 110	Living and Non-living Resources

Interpretations Issued and Effective

IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in Existing Decommisssioning Restoration and Similar Liabilities
IGRAP 3	Determining Whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environnmental Rehabilitation
Funds IGRAP 8	Agreements for the Contruction of Assets from Exchange Transactions
IGRAP 10	Assets Received from Cumstomers
IGRAP 13	Operating Leases - Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 16	Intangible Assets - Website Costs (effective 1 April 2013)

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and all amounts are rounded to the nearest rand.

1.2 Going concern assumption

The financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of financial statements is in conformity with South African Standards of GRAP which requires the use of certain critical accounting accounting estimates. It also requires management to excercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and sections they may undertaken in the future, actual results ultimately may differ from those estimates. These include:

Trade receivables and other receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

On receivables an impairment loss is recognised in the surplus or deficit when there is objective evidence that is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at the initial recognition.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of receivable and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Accounting Policies for the year ended 30 June 2018

1.4 Consistency of presentation

The presentation and classification of items in the financial statements is the same as in the previous reporting period.

1.5 Offsetting

Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a standard of GRAP.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Subsequently recognised at cost model.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	60 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Accounting Policies for the year ended 30 June 2018

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment.

The Municipality used 20% for residual value on the motor vehicles.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Land is not depreciated
INFRASTRUCTURE ASSETS	Straight line	
• Aviation		20-50
• Electricity		5-50
• Refuse		10-100
• Roads		20-120
• Sorm water		10-50
• Water supply		10-80
• Sanitation		10-60
• Transport		10-80
COMMUNITY ASSETS	Straight line	
• Buses		10-30
• Cemetries		30 years
• Community Halls		30 years
• Fire,Safety & Emergency		10-100
• Museums & Art Gallaries		10-100
• Parks & Gardens		5-50
• Recreational Facilities		15-100
• Social Renting Housing		10-100
• Sportsfields		20-30
• Swimming Pools		10-20

OTHER ASSETS	Straight line	
• Civil Land & Building		20-100
• Computer Hardware & Equipment		2-5
• Furniture & Office Equipment		7-30
• General Vehicles		7-15
• Other Buildings		50-100
• Other Land		Indefinite
• Other Assets		5-15
• Plant &Equipment		5-30
• Security Measure		5-10
• Specialised Vehicle		12-30
BUILDINGS	Straight line	
• Other Buildings		10-100
• Historical Building		10-200

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.8 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality. Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use. Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses. After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Accounting Policies for the year ended 30 June 2018

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), an entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies for the year ended 30 June 2018

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at fair value
Long term loan	Financial liability measured at fair value

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Accounting Policies for the year ended 30 June 2018

Subsequent measurement

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.11 Leases

The Municipality as a lessee

Leases are classified as finance leasees where substantially all the risks and rewards of ownership are transfered to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the asset or if lower the present value of the minimum lease payments determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and measured at the sum of the minimum lease payments discounted for the effect of the interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payment and unguaranteed residual values to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the capital and finance costs portions using the effective interest method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance wih the stated accounting policies applicable to property, plant and equipment or intangible assets. The lease liabilityis reduced by the lease payments, which are allocated between finance costs and capital repayment using the effective interest method. Lease finance costs are expensed when incurred. The accounting policies reating to the derecognition of financial instruments are applied to lease payables. The leased asset is depreciated over the shorter of the useful life of the asset or the lease term.

The Municipality as a lessor

Operating lease rental income is recognised on a straight line over the term of the relevant lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the leaseif it practicable to determine. If not the rate for the government bond with a maturity similar to the lease is used.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.13 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification of a potential impairment

The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Accounting Policies for the year ended 30 June 2018

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired. The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement of non-cash generating units

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies for the year ended 30 June 2018

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

Employee benefits are all forms of consideration given by entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- the municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from a entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.16 Provisions

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Construction contracts and receivables

The municipality is registered for VAT on the payment basis. Revenue, expenses and assets are recognised net of the amount of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.
The municipality is liable to account for VAT at standard rate (14% - period 01 July 2017 to March 2018) and (15% - 01 April 2018) in terms of section 7(1) of the vat act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or is out of scope for VAT purposes. The timing of payments to or from SARS is the last day of each of twelve months financial year.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners. An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Rates, including collection charges, penalties and interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforveable. Penalty interest on unpaid rates is recognised on a time apportionnment basis with reference to the principle amount receivable and effective interest rate applicable. Rebates are granted to certain catergories of ratepayers and are deducted from the revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets (revenue) arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Donations are recognised on a cash basis or where the donation is in the form of; property, plant and equipment, when such items are available for use.

1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.21 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.22 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Accounting Policies for the year ended 30 June 2018

The alternative treatment, as allowed by the Borrowing Costs standard (GRAP 5), to expense Borrowing Costs has been selected by the Municipality.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.23 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.24 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Related parties include:
- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:
- All directors or members of the governing body of the entity, being the Executive Mayor, Executive Deputy Mayor, Speaker and members of the Mayoral Committee.

- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer an all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.25 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of resources embodying economic benefits or service potential. A commitment is disclosed to the extent that it has not already been recognised anywhere else in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitment note in the financial statements.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Accounting Policies for the year ended 30 June 2018

1.27 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note 49 to the financial statements.

1.28 Unauthorised expenditure

Unauthorised expenditure is any expenditure incurred otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (MFMA).

Unauthorised expenditure includes:
- Overspending of the total amount appropriated in the municipality's approved budget,
- Overspending of the total amount appropriated for a vote in the approved budget,
- Expenditure from a vote unrelated to the department or functional area covered by the vote,
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose,
- Spending of an allocation received from another sphere of Government, municipality, or organ of state otherwise than in accordance with any conditions of the allocation,
- A grant by the municipality otherwise than in accordance with the MFMA.

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not certified as irrecoverable by the council it is treated as an asset until it is recoverable or written off as irrecoverable.

1.29 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.30 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.31 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts in the annual financial statement.

1.32 Contingent assets and contingent liabilities

The municipality does not recognise contingent liabilities or contingent assets, but disclose them.

A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow economic benefits is probable. Contingent assets and liabilities are disclosed in note 47.

1.33 Change in accounting policy, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, change in accounting estimates and errors, requirements excpet to the extent that is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective restatement is practicable. Details of the changes in accounting policy are disclosed in the notes to the financial statements where applicable.
Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.
Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details of the prior period errors are disclosed in the notes to the financial statements where applicable.

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

2. INVENTORIES

Water	91 851	44 330
Land	4 017 500	4 017 500
Consumable stores	404 108	1 165 610
Electricity	2 898 841	1 635 914
	7 412 300	**6 863 354**

Inventories are held for own use and measured at the lower of Cost and Net Replacement Value

No inventory is pledged as security.

Land is made out of vacant municipal land earmarked / held for sale.

Consumable stores includes; potective clothing, toilet papers, maintenance items, refuse bags and other items.

Electricity includes; electricity fittings, bulbs, cables.

2.1 Inventories recognised as an expense during the year

Cleaning and materials	-	60 211
Consumables	314 338	-
Materials and stores	8 928 806	10 401 495
Printing and stationery	-	14 772
Protective clothing	-	107 106
Refuse bags	-	292 795
Uniforms	-	82 331
	9 243 144	**10 958 710**

3. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross balances		
Electricity	29 668 515	40 447 105
Refuse	21 839 569	21 097 161
Sewerage	43 566 593	39 083 795
Water	155 200 363	117 029 755
Other	139 345 397	116 102 691
	389 620 437	**333 760 507**
Less: Allowance for impairment		
Electricity	(18 362 776)	(25 885 939)
Refuse	(23 579 113)	(3 938 415)
Sewerage	(42 179 408)	(37 668 159)
Water	(152 614 458)	(113 702 446)
Other	(135 277 164)	(106 430 272)
	(372 012 919)	**(287 625 231)**
Net balance		
Electricity	11 305 739	14 561 166
Refuse	(1 739 544)	17 158 746
Sewerage	1 387 185	1 415 636
Water	2 585 905	3 327 309
Other	4 068 233	9 672 419
	17 607 518	**46 135 276**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R
Electricity		
Current (0 -30 days)	8 278 324	8 961 112
31 - 60 days	2 440 175	6 096 528
61 - 90 days	1 484 297	1 780 657
91 - 120 days	851 277	3 031 410
121 - 365 days	16 614 443	20 577 398
> 365 days	(18 362 777)	(25 885 939)
	11 305 739	**14 561 166**
Water		
Current (0 -30 days)	10 049 462	6 722 426
31 - 60 days	6 543 368	4 042 521
61 - 90 days	5 878 696	3 484 262
91 - 120 days	4 734 597	4 937 318
121 - 365 days	127 994 240	97 843 228
> 365 days	(152 614 458)	(113 702 446)
	2 585 905	**3 327 309**
Sewerage		
Current (0 -30 days)	1 172 744	1 278 252
31 - 60 days	807 719	768 047
61 - 90 days	703 375	674 221
91 - 120 days	712 935	653 548
121 - 365 days	40 169 820	35 709 726
> 365 days	(42 179 408)	(37 668 158)
	1 387 185	**1 415 636**
Refuse		
Current (0 -30 days)	658 811	760 217
31 - 60 days	460 023	457 439
61 - 90 days	419 786	407 610
91 - 120 days	406 554	398 118
121 - 365 days	19 894 395	19 073 776
> 365 days	(23 579 113)	(3 938 414)
	(1 739 544)	**17 158 746**
Other (specify)		
Current (0 -30 days)	2 925 127	4 518 536
31 - 60 days	1 912 713	3 713 041
61 - 90 days	2 627 135	2 741 826
91 - 120 days	2 770 522	3 077 069
121 - 365 days	125 117 200	102 052 219
> 365 days	(131 284 464)	(106 430 272)
	4 068 233	**9 672 419**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(287 625 231)	(254 968 417)
Contributions to allowance	(84 387 688)	(98 307 074)
Debt impairment written off against allowance	-	65 650 260
	(372 012 919)	**(287 625 231)**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2018 R	2017 R
Sundry Deposits	57 293	55 330
Consumer debtors - Rates	49 275 139	37 705 104
Impairment on assessment rates debtors	(31 853 022)	(12 074 983)
	17 479 410	**25 685 451**

Reconciliation of provision for impairment of receivables from non-exchange transactions

	2018 R	2017 R
Opening balance	(12 074 983)	(58 755 894)
Provision for impairment	(19 778 039)	46 680 911
	(31 853 022)	**(12 074 983)**

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2018 R	2017 R
Current Investments	6 966 458	8 905 616
Bank Accounts	6 569 116	4 037 428
	13 535 574	**12 943 044**

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments.

Current Investment Deposits

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5,75 % to 8,40 % (2017: 4,50 % to 7,50 %)per annum.
Call Deposits are investments with no maturity period.

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Current Account - 620 312 32531	6 569 116	4 037 428	3 828 302	6 569 116	4 037 428	3 828 302
Standard Bank - Current Account - 081 999 356	-	-	44 941	-	-	44 941
First National Bank - Call Account - 622 334 11884	3 890 434	5 308 016	(41)	3 890 434	5 621 194	(46)
First National Bank - 12 Months Deposits - 715 388 11574	516 466	479 764	446 292	516 466	479 764	454 379
Standard Bank - 12 Months Deposits - 088 807 657004	425	425	425	425	425	426
Standard Bank - 12 Months Deposits - 088 812 685-001/4/7	1 507	1 507	1 507	1 507	1 507	1 507
Standard bank - Call Account - 088 822 370-002	47 552	45 149	42 313	47 552	45 149	42 313
GBS Mutual - 32 Days Notice - 305 970 0053	-	154 736	210 850	-	154 736	210 850
GBS Mutual - 12 Months Deposits - 255 060 4545	-	181 902	169 637	-	181 902	169 637
GBS Mutual - 12 Months Deposits - 255 060 4601	-	166 218	166 218	-	166 218	166 218
ABSA Call Account - 909 560 9301	141 235	137 779	131 812	141 235	137 779	131 812
ABSA - 12 Months Deposits - 204 758 4346	46 631	46 631	43 435	46 631	46 631	43 436
ABSA - 12 Months Deposits - 204 947 8169	11 640	10 815	10 107	11 640	10 815	10 107
Nedbank - Call Account - 037881065141/00001	94 047	87 890	82 776	94 047	87 890	82 776
Standard Bank - 12 Months Deposits - 088 805 662-002	163	163	164	163	163	163
Standard Bank - 12 Months Deposits - 088 812 723-001	415	415	416	415	415	415
GBS Mutual - Fixed Deposit - 022 50604623	-	6 000	6 000	-	6 000	-
GBS Mutual - Fixed deposit - 022 50604461	-	4 000	4 000	-	4 000	-
GBS Mutual - Fixed Deposit - 022 50604450	-	50	50	-	50	-
GBS Mutual - Fixed Deposit - 022 50604449	-	100	100	-	100	-
First National Bank - Current Account - 626331296321	196 104	31 851	-	196 104	31 851	-
Nedbank - Call Account - 145027119992	-	25 213	-	-	25 213	-
Nedbank - Call Account - 145027119998	-	15 542	-	-	15 542	-
GBS Mutual - Fixed Deposit - 022 5060 4335	-	3 000	3 000	-	3 000	3 000
GBS Mutual - Fixed Deposit - 022 5060 4357	-	20 000	20 000	-	20 000	20 000
GBS Mutual - Fixed Deposit - 022 5060 4380	-	967	1 034	-	967	1 034
GBS Mutual - Fixed Deposit - 022 5060 4391	-	5 000	5 000	-	5 000	5 000
GBS Mutual - Fixed Deposit - 022 5060 4438	-	4 000	4 000	-	4 000	4 000

Notes to the Annual Financial Statements for the year ended 30 June 2018

					2018 R	2017 R
GBS Mutual - Fixed Deposit - 022 5060 4472	-	4 500	4 500	-	4 500	4 500
GBS Mutual - Fixed Deposit - 022 5060 4494	-	3 600	3 600	-	3 600	3 600
GBS Mutual - Fixed Deposit - 022 5060 4531	-	4 000	4 000	-	4 000	4 000
GBS Mutual - Fixed Deposit - 022 5060 4553	-	6 700	6 700	-	6 700	6 700
GBS Mutual - Fixed Deposit - 022 5060 4564	-	5 400	5 400	-	5 400	5 400
GBS Mutual - Fixed Deposit - 022 5060 4597	-	3 200	3 200	-	3 200	3 200
GBS Mutual - Fixed Deposit - 027 6801 01015	-	2 000	2 000	-	2 000	2 000
GBS Mutual - Fixed Deposit - 030 5970 4019	-	14 000	14 000	-	14 000	14 000
GBS Mutual - Fixed Deposit - 030 5970 4380	-	1 811 905	-	-	1 811 905	-
FNB DBSA Call Account - 62646088139	1 917 904	-	-	1 917 904	-	-
Total	**13 433 639**	**12 629 866**	**5 265 738**	**13 433 639**	**12 943 044**	**5 263 670**

6. PROPERTY, PLANT AND EQUIPMENT

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	76 455 111	-	76 455 111	76 455 111	-	76 455 111
Buildings	113 344 939	(18 348 392)	94 996 547	113 344 939	(16 291 434)	97 053 505
Infrastructure	697 157 923	(173 701 748)	523 456 175	693 017 822	(152 541 657)	540 476 165
Community	98 351 070	(29 914 840)	68 436 230	84 405 693	(27 288 620)	57 117 073
Other property, plant and equipment	43 407 174	(25 761 256)	17 645 918	43 761 033	(23 718 796)	20 042 237
Work in progress Infrastructure	26 526 392	-	26 526 392	7 456 463	-	7 456 463
Work in progress Community	12 909 219	-	12 909 219	15 674 427	-	15 674 427
Landfill site	20 626 487	(8 651 151)	11 975 336	20 231 144	(7 655 891)	12 575 253
Total	**1 088 778 315**	**(256 377 387)**	**832 400 928**	**1 054 346 632**	**(227 496 398)**	**826 850 234**

Notes to the Annual Financial Statements for the year ended 30 June 2018

Figures in Rand

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	76 455 111	-	-	-	-	-	76 455 111
Buildings	97 053 505	-	-	-	(2 056 958)	-	94 996 547
Infrastructure	540 476 165	-	(14 255)	4 163 666	(21 114 548)	(54 853)	523 456 175
Community	57 117 073	-	(403 213)	14 566 291	(2 843 921)	-	68 436 230
Other property, plant and equipment	20 042 237	-	(668 938)	315 079	(2 042 460)	-	17 645 918
Work in progress Infrastructure	7 456 463	23 233 595	-	(4 163 666)	-	-	26 526 392
Work in progress Community	15 674 427	12 116 162	-	(14 881 370)	-	-	12 909 219
Landfill site	12 575 253	395 343	-	-	(995 260)	-	11 975 336
	826 850 234	**35 745 100**	**(1 086 406)**	**-**	**(29 053 147)**	**(54 853)**	**832 400 928**

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	76 365 411	89 700	-	-	-	-	76 455 111
Buildings	99 019 729	108 539	-	-	(2 074 763)	-	97 053 505
Infrastructure	464 033 789	-	-	117 832 032	(21 608 150)	(19 781 506)	540 476 165
Community	36 826 331	-	-	34 189 786	(2 734 199)	(11 164 845)	57 117 073
Other property, plant and equipment	23 744 355	93 971	(1 287 410)	-	(2 508 679)	-	20 042 237
Work in progress Infrastructure	160 165 978	-	-	(152 709 515)	-	-	7 456 463
Work in progress Community	4 433 408	-	-	11 241 019	-	-	15 674 427
Landfill site	13 570 395	-	-	-	(995 142)	-	12 575 253
	878 159 396	**292 210**	**(1 287 410)**	**10 553 322**	**(29 920 933)**	**(30 946 351)**	**826 850 234**

	2018 R	2017 R

Aging of Work-in-Progress 2018

Project Name	Commence date	Expected Completion date	Project Delayed (Yes/No)	Total Expenditure as at 30 June 2018	Percentage of completion at reporting date	Reason for Delay
Construction of Roads and Storm Water - Alicedale Phase 1	08 June 2017	22 November 2017	Yes	R7 853 669.87	73%	Delays were due to poor performance and cash flow problems by the contractor

No other Work in progress projects were significantly delayed as at 30 June 2018.

Subsequently the following Projects were completed on the 2018/19 year:
1. Construction of Roads and Storm Water - Alicedale Phase 1 was completed on the 26 October 2018.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

No property, plant and equipment was pledged as security.

7. INTANGIBLE ASSETS

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 616 203	(1 122 097)	494 106	1 487 881	(916 805)	571 076

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	571 076	75 644	(152 614)	494 106

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	430 036	350 000	(208 960)	571 076

Pledged as security

No intangible assets are pledged as security.

8. HERITAGE ASSETS

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical Assets	34 608 200	(1 243 332)	33 364 868	34 608 200	(1 243 332)	33 364 868

	2018 R	2017 R

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical Assets	33 364 868	33 364 868

Reconciliation of heritage assets 2017

	Opening balance	Total
Historical Assets	33 364 868	33 364 868

Heritage assets consists of

Heritage assets comprises of memorial sites and conservation areas.

Pledged as security

No heritage assets are pledged as security.

9. INVESTMENT PROPERTY

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	185 549 500	(1 079 110)	184 470 390	185 549 500	(959 209)	184 590 291

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	184 590 291	(119 901)	184 470 390

Reconciliation of investment property - 2017

	Opening balance	Disposals	Transfers	Depreciation	Total
Investment property	192 008 634	(5 519 934)	(1 677 500)	(220 909)	184 590 291

No investment property has been pledged as security.

A register containing the infromation required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. CONSUMER DEPOSITS

	2018	2017
Electricity and water	2 946 480	2 956 701
Rental of Buildings and Facilities	291 536	-
	3 238 016	**2 956 701**

	2018 R	2017 R

Consumer Deposits are paid by consumers on application for new water and electricity connections together deposit for rental of municipal properties. The deposits are repaid when the water and electricity connections are terminated and deposit for rental of properties are refund provide no demands were identified on the property. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account for water and electricity. No interest is paid on Consumer Deposits held .

11. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	176 055 012	162 425 767
Payments received in advance	139 388	139 388
Retentions	4 493 026	1 667 779
Guarantee	736 164	-
Other creditors	10 205 608	24 621 866
	191 629 198	**188 854 800**

No interest is paid for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

12. PAYABLES FROM NON-EXCHANGE TRANSACTIONS

Bonus Provision	4 536 616	5 381 855
Leave Provision	12 399 608	17 965 925
Refundable deposits	371 126	371 126
	17 307 350	**23 718 906**

Bonus provision - staff bonuses accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.
Leave provision - staff leave accrue to the staff of the municipality on an annual basis, subject to cartain conditions. The provision is an estimate of the amount due at the reporting date.
Other creditors is made out of third party payments outstanding at year end.
Refundable deposits is mad out of third party payments outstanding at year end.

13. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Public Health Subsidy	-	1 403 509
Municipal Infrastructure Grant	1 800 768	929 784
NDPG	66 808	-
Expanded Public Works program (EPWP)	-	4 036
Department of Minerals & Energy(DME)	-	3 758 961
Provincial : Other Grants	-	2 729 259
Disaster Grant	3 876 000	3 876 000
	5 743 576	**12 701 549**

The nature and extent of government grants recognised in the annual financial statements are an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

14. VAT PAYABLE

	2018 R	2017 R
Vat Control	450 567	5 620 656
Vat Provision	35 706 752	12 192 483
	36 157 319	**17 813 139**

The VAT Provision account is used to record VAT on revenue and expenses incurred but for which no payment has been received or made.

15. LONG TERM LOAN

	2018 R	2017 R
Designated at fair value		
Bank loan	54 747 514	55 832 375
The municipality has restructured its loan with the Development Bank of South Africa effectively on the 30 September 2015. The borrowed amount amounts to R56 358 399 with an interest rate of 10.5% p.a for a period of 20 years with the first installment which started on 31 January 2017.		
Non-current liabilities		
Designated at fair value	53 541 893	54 747 514
Current liabilities		
Designated at fair value	1 205 621	1 084 861

	2018 R	2017 R

16. EMPLOYEE BENEFIT OBLIGATIONS

Defined benefit plan

The amounts recognised in the statement of financial position are as follows:

	2018 R	2017 R
Carrying Value		
Post retirement benefits: medical aid	71 323 576	70 373 179
Long service awards	7 526 520	6 676 434
	78 850 096	**77 049 613**
Current portion of liability	4 320 441	2 679 520
Non-current portion of liability	74 529 655	74 370 093
	78 850 096	**77 049 613**

Post retirement health care benefit liability

The municipality operates an unfunded defined benefit plan for qualifying employees, and offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. The accrued unfunded liability at 30 June 2018 is based on the municipality's accrued contributiions-based liability and takes no account of any potential contingent Cros-subsidy liability. The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation report was performed on 30 June 2017 by Arch Actuarial Consulting using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

	2018	2017
In-service (employee) members	393	408
In-service (employee) non-members	258	268
Contribution (retiree and widow) members	67	66
	718	**742**

The liability in respect of past service has been estimated as follow:

	2018	2017
In-service (employee) members	32 659 274	32 393 834
In-service (employee) non-members	6 312 536	6 223 886
Contribution (retiree and widow) members	32 351 766	31 755 459
	71 323 576	**70 373 179**

The municipality makes monthly contributions for health-care arrangements to the following Medical Aid Schemes

Bonitas
Samwumed
Keyhealth
Hosmed
LA Health

Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
Opening balance	68 938 260	61 362 940
Net expense recognised in the statement of financial performance	950 397	7 575 320
	69 888 657	**68 938 260**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

The amounts recognised in the statement of financial performance are as follows

Current service cost	3 624 584	3 355 270
Interest cost	6 647 442	5 634 155
Actuarial (gains) losses	(6 642 109)	(10 394 900)
Curtailment	(2 679 520)	(2 064 036)
Past service cost	-	11 044 831
	950 397	7 575 320

The principal assumptions used for the purpose of the actuarial valuations were as follows:

(i) SA 85-90 table was used for pre-retirement mortality adjusted for female lives, and table PA (90)-1 was used for post-retirement mortality, adjusted year of age.

Discount rates used	9,55 %	9,63 %
Expected increase in salaries	7,50 %	8,27 %
Expected pension increases	7,00 %	6,09 %
Proportion of employees opting for early retirement	2,05 %	2,05 %
Expected increase in healthcare costs	7,36 %	7,92 %

(ii) Normal Retirement Age of an employee is at 65

Expected Retirement Age (females)	63
Expected Retirement Age (males)	63

The PA 90-1 mortality table, adjusted down by one year of age, was used. The SA85-90 ultimate table, adjusted for female lives was used.

The net change in Actuarial gain or losses is due to the following.
Increase in the net discount rate of R-65 202
Earnings increase higher than assumed. R169 9620
Changes to employee profile different from assumed. R428 889.
Totaling to a net difference of R533 611.

Other assumptions

it is further assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

The history of experienced adjustments is as follows:

The fair value of Plan assets: The post-employment health care liability and Long- Service Awards are not a funded arrangement i.e no separate assets have been set aside to meet this liability

	2018 R	2017 R	2016 R	2015 R	2014 R
Defined benefit obligation	71 323 576	70 373 000	61 362 940	61 362 940	57 100 887
Surplus (deficit)	(71 323 576)	(70 373 000)	(61 362 940)	(61 362 940)	(57 100 887)
Experience adjustments on plan liabilities	(7 410 418)	(340 000)	(899 000)	(789 000)	4 866 000

	2018 R	2017 R
Long -service awards		
Changes in the present value of the defined benefit obligation are as follows:		
	6 676 434	6 573 769
	850 086	102 665
	7 526 520	**6 676 434**
The amount recognised in the Statement of Financial Position are as follows:		
The total economic entity contribution to such schemes	6 696 500	6 592 956
The amount recognised as an expense for defined contribution plans is	850 086	102 665
Net expense recognised in the statement of financial performance		
Current service costs	988 968	1 038 426
Interest costs	504 265	499 158
Actuarial gain	(643 147)	(1 434 919)
	850 086	**102 665**

17. PROVISIONS

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	31 094 139	1 589 599	32 683 738

Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Environmental rehabilitation	28 881 524	2 212 615	31 094 139

The Municipality has an obligation to restore three landfill sites situated in Grahamastown, Alicedale and Riebeek east.The landfill sites are currently licensed and used for general waste disposal (non-hazardous) purpose. The valuations were done by Bosch Munitech based in East London.

18. SERVICE CHARGES

	2018 R	2017 R
Service charges	-	46 969
Sale of electricity	118 436 600	127 105 815
Sale of water	76 279 723	66 686 740
Sewerage and sanitation charges	21 764 994	24 371 763
Refuse removal	8 415 210	11 936 550
	224 896 527	**230 147 837**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

19. RENTAL OF FACILITIES AND EQUIPMENT

	2018 R	2017 R
Premises		
Encroachments	1 387 902	1 144 102
Venue hire	324 609	95 557
	1 712 511	**1 239 659**
Facilities and equipment		
Amenities	30 089	39 897
	1 742 600	**1 279 556**

20. INTEREST REVENUE

	2018 R	2017 R
Interest revenue		
Bank	991 024	1 086 258
Interest charged on trade and other receivables	19 879 427	18 731 054
	20 870 451	**19 817 312**

21. OTHER INCOME

	2018 R	2017 R
Administration/sale of plots	577 654	302 882
Building Plans	345 512	427 292
Grazing fees	25 613	25 613
Weighbridge fees	1 380	932
Sundry revenue	1 303 145	9 135 558
Search fees	-	10 515
Printing and photocopies	19 675	3 601
Refuse bags and bins	-	8 073
Donations	-	5 000
Other income	-	1 820
	2 272 979	**9 921 286**

	2018 R	2017 R

22. PROPERTY RATES

Rates received

	2018 R	2017 R
Property rates	67 433 842	63 699 215
Less: Income forgone	(1 156 337)	(1 133 295)
	66 277 505	**62 565 920**

Valuations

	2018 R	2017 R
Residential	4 960 310 985	5 357 056 525
Commercial	670 056 900	806 428 300
State	788 160 700	788 160 700
Undetermined	482 234 732	656 575 647
Agricultural	1 706 981 600	2 117 414 200
Industrial	209 806 800	261 146 100
Educational	24 908 250	1 677 115 850
Institutional	1 412 043 100	5 148 800
	10 254 503 067	**11 669 046 122**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2018.

	2018 R	2017 R

23. GOVERNMENT GRANTS AND SUBSIDIES

	2018 R	2017 R
Operating grants		
Equitable share	79 857 585	77 008 000
Drought Grant	743 192	-
Department Sport, Recreation, Arts & Culture	4 000 000	3 508 772
Municipal Infrastructure Grant (MIG)	1 238 200	92 430
Finance Management Grant (FMG)	2 145 000	1 810 000
Other Government: LG Seta	-	195 137
Fire Subsidy grant	-	1 019 507
Expanded Public Works Programme (EPWP)	1 331 455	1 000 000
Public Health Subsidy	1 718 235	1 786 793
	91 033 667	86 420 639
Capital grants		
DWA	-	3 962 437
Municipal Infrastructure Grant (MIG)	40 299 832	23 681 000
INEP GRANT	-	241 039
	40 299 832	27 884 476
	131 333 499	**114 305 115**

Disaster

Included in above are the following grants and subsidies received:

	3 876 000	3 876 000

Municipal Infrastructure Grant - Capital

Balance unspent at beginning of year	929 784	-
Current-year receipts	41 170 816	24 610 784
Conditions met - transferred to revenue	(40 299 832)	(23 681 000)
	1 800 768	**929 784**

The municipal Infrastructure Grant (MIG) was allocated for construction of Roads, basic sewere and water infrastructure as part of the life of poor households,micro enterprise and social instituition, to provide new infrastructure , rehabilitation and upgrading of municipal infrastructure. The municipality's MIG funds are deposited to Sarah Baartman District Municipality and the municipality receives a portion of expenditure to be incured upon submission of valid invoices to Sarah Baartman. Unspent Grant at year end as well as roll over application is done by the district municipality and will be disbursed to the municipality upon submission of valid tax invoices.

Finance Management Grant

Current-year receipts	2 145 000	1 810 000
Conditions met - transferred to revenue	(2 145 000)	(1 810 000)
	-	-

The Finance Management Grant is paid by National Treasury to municipalities to help them implement the finance management reforms required by Municipal finance Management Grant (MFMA) 2003

Expanded Public Works program

Balance unspent at beginning of year	4 036	141 068
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 004 036)	(1 137 032)
	-	**4 036**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

The Expanded Public works Program was allocated to the municipality for enviromental and water infrastructure projects.

Other Grants: LG Seta

Current-year receipts	-	195 137
Conditions met - transferred to revenue	-	(195 137)
	-	-

Department of Sport,Recreation, Arts & Culture

Current-year receipts	4 000 000	3 508 772
Conditions met - transferred to revenue	(4 000 000)	(3 508 772)
	-	-

This Grant was allocated to the municipality for purpose of mantaining and building libraries in the community

Department of Water Affairs

Current-year receipts	-	3 962 437
Conditions met - transferred to revenue	-	(3 962 437)
	-	-

This Grant was transferred to the municipality for the operation and mantainance of sewerage and water schemes transfered from DWA to the municipality and refurbishment of water infrastructure.

INEP

Balance unspent at beginning of year	3 758 961	-
Current-year receipts	-	4 000 000
Conditions met - transferred to revenue	(3 758 961)	(241 039)
	-	**3 758 961**

This Grant was allocated to the municipality for electricity infrastructure

Fire Subsidy Grant

Current-year receipts	-	1 019 507
Conditions met - transferred to revenue	-	(1 019 507)
	-	-

The subsidy was allocated by the District to the Municipality for fire services operations.

Public Health Subsidy

Current-year receipts	-	1 786 793
Conditions met - transferred to revenue	-	(1 786 793)
	-	-

The subsidy was allocated to the Municipality for public health operations.

Provincial: Other Grants

Balance unspent at beginning of year	2 729 259	-
Current-year receipts	-	2 730 159

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R
Conditions met - transferred to revenue	(2 729 259)	(900)
	-	2 729 259

Public Health Subsidy

Balance unspent at beginning of year	1 403 509	1 403 509
Current-year receipts	314 726	-
Conditions met - transferred to revenue	(1 718 235)	-
	-	1 403 509

Drought Grant

Current-year receipts	810 000	-
Conditions met - transferred to revenue	(743 192)	-
	66 808	-

The subsidy was allocated to the Municipality as a emergency disaster relief grant for the boreholes.

24. REVENUE

Service charges	224 896 527	230 147 837
Rental of facilities and equipment	1 742 600	1 279 556
Interest received Debtors	19 879 427	18 731 054
Agency services	-	811 088
Licences and permits	2 642 116	2 360 169
Other income	2 272 979	9 921 286
Interest received - investment	991 024	1 086 258
Property rates	66 277 505	62 565 920
Government grants & subsidies	131 333 499	114 305 115
Public contributions and donations	9 668 960	-
Fines, Penalties and Forfeits	382 535	492 265
	460 087 172	441 700 548

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	224 896 527	230 147 837
Rental of facilities and equipment	1 742 600	1 279 556
Interest received Debtors	19 879 427	18 731 054
Agency services	-	811 088
Licences and permits	2 642 116	2 360 169
Other income	2 272 979	9 921 286
Interest received - investment	991 024	1 086 258
	252 424 673	264 337 248

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	66 277 505	62 565 920
Transfer revenue		
Government grants & subsidies	131 333 499	114 305 115
Public contributions and donations	9 668 960	-
Fines, Penalties and Forfeits	382 535	492 265
	207 662 499	177 363 300

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

25. EMPLOYEE RELATED COSTS

Basic	114 728 948	107 656 836
Bonus	(187 790)	2 397 491
Medical aid - company contributions	9 730 060	9 499 387
UIF	1 041 315	1 054 394
SDL	1 298 724	1 337 618
Leave payments	(5 566 317)	7 664 757
Insurance contribution	868 180	810 666
Pension fund contributions	17 766 859	16 672 103
Overtime payments	7 780 212	9 811 864
Travel and other allowances	3 571 248	3 718 305
Housing benefits and allowances	1 223 099	1 895 882
Stand by allowance	1 322 824	914 004
Telephone allowance	264 837	317 108
Medical aid for retired members	3 660 511	14 672 206
Industrial Council Levy	66 295	63 974
	157 569 005	**178 486 595**

Acting Municipal Manager: Various		
Earnings	178 874	327 930

Chief Financial Officer: NF Siwahla		
Earnings	721 034	625 081
Allowance	343 235	343 562
Company contributions	11 947	11 038
	1 076 216	**979 681**

Acting Chief Financial Officer: Colleen Mani		
Company contributions	82 048	32 691

Director: Community & Social Services: M Planga		
Earnings	451 596	828 617
Allowance	71 446	178 901
Company contributions	5 999	13 052
	529 041	**1 020 570**

Director: Corporate Services: M Madlavu		
Earnings	-	90 679
Company contributions	-	1 056
	-	**91 735**

Acting Director: Corporate Services: Various		
Earnings	27 298	348 481

Director: Local Economic Development: MJ Meiring		
Earnings	832 459	789 208
Allowance	188 486	180 306
Company contributions	11 622	12 835
	1 032 567	**982 349**

Director: Corporate Services: NC Mazwayi		
Earnings	735 711	-
Allowance	413 732	-

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R
Company contributions	12 650	-
	1 162 093	-

	2018 R	2017 R
Acting Director: Public Safety and Community Services: CJ Hanekom		
Earnings	83 317	-

	2018 R	2017 R
Director: Technical & Infrastructure Services: D Mlenzane		
Earnings	792 817	748 647
Allowance	273 922	158 094
Company contribution	12 150	10 567
	1 078 889	**917 308**

	2018 R	2017 R
Acting Director: Community Services: W Welkom		
Earnings	112 973	-

26. REMUNERATION OF COUNCILLORS

	2018 R	2017 R
Executive Mayor	831 918	781 303
Councillors other allowance	6 963 636	6 333 825
Councillors cellphone allowance	692 328	580 396
Councillors travelling allowance	1 826 703	1 941 050
	10 314 585	**9 636 574**

Salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution

27. DEPRECIATION AND AMORTISATION

	2018 R	2017 R
Property, plant and equipment	29 206 529	30 161 277
Investment property	119 901	220 909
Intangible assets	152 614	208 960
	29 479 044	**30 591 146**

28. FINANCE COSTS

	2018 R	2017 R
Provisions	8 739 763	20 064 201
Interest paid	14 764 819	13 307 062
	23 504 582	**33 371 263**

The finance costs includes Eskom, landfill site, DBSA and other interest paid for late payments.

29. IMPAIRMENT

	2018 R	2017 R
Debt impairment	104 255 346	(531 585)
Impairment of assets	54 853	30 946 351
Bad debts written off	5 077 354	-
	109 387 553	**30 414 766**

The impairment is made out of the debt impairment, impairment of assets and bad debt written off during the financial year.

	2018 R	2017 R

30. REPAIRS AND MAINTENANCE

The accounting standards boards (ASB) issued a FAQ which states that the line item "Repairs and Maintenance" is no longer permitted in the statement of financial performance and that the said expenditure should be reclassified by it nature.

However in line with the requirements of GRAP 17, the repairs and maintenance related expenditure identified by the municipality can still be attributed to the following assets classes:

	2018 R	2017 R
Repairs and maintenance		
Buildings and facilities	263 239	553 806
Infrastructure	4 490 828	3 644 431
Other assets	3 192 491	5 517 433
	7 946 558	**9 715 670**

31. BULK PURCHASES

	2018 R	2017 R
Electricity	108 188 576	110 701 988
Water	6 319 028	5 432 908
	114 507 604	**116 134 896**

32. CONTRACTED SERVICES

	2018 R	2017 R
Consultant and Professional Fees	19 359 146	39 900 756

The professional fees is made out of consulting fees for services rendered i.e debt collectors,financial system and other.

33. GRANTS AND SUBSIDIES PAID

	2018 R	2017 R
Other subsidies		
Free basic services	-	19 922 281
Makana Tourism	1 075 065	850 000
Internship programme	1 603 200	2 507 660
	2 678 265	**23 279 941**

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

34. GENERAL EXPENSES

Audit Fees	4 940 280	3 919 406
Administration Charges	2 748 472	1 841 942
Advertising	369 016	709 725
Audit Committee	128 597	94 432
Bank charges	216 599	273 796
Chemicals	-	3 347
Cleaning and materials	-	60 211
Commission paid	7 840	1 295 151
Complaints: water and electricity	-	85 160
Conferences and seminars	1 721 079	1 063 803
Consumables	314 338	-
Council events and projects	1 354 028	793 474
Electricity and Water	-	7 400 494
Electricity connection	-	13 626
Fuel and oil	66 888	293 605
Hire	7 551	-
Insurance	833 953	599 022
Interviews and Relocation Expenses	-	228 545
Legal Fees	-	2 577 188
License Cards	1 740 519	567 018
Materials and stores	8 928 806	10 401 495
Other expenses	2 835 397	3 414 600
Postage and courier	791 776	968 508
Printing and stationery	6 905	14 772
Protective clothing	47 419	107 106
Refuse bags	-	292 795
Security (Guarding of municipal property)	56 989	206 639
Subsistence and Traveling	619 367	265 139
Telephone and fax	1 492 344	3 493 487
Training	2 982	719 910
Uniforms	-	82 331
	29 231 145	**41 786 727**

35. AUDITORS' REMUNERATION

Audit Fees	4 940 280	3 919 406

	2018 R	2017 R

36. CASH GENERATED FROM (USED IN) OPERATIONS

	2018 R	2017 R
Deficit	(40 420 545)	(64 518 041)
Adjustments for:		
Depreciation and amortisation	29 479 044	30 591 146
Gain / (loss) on disposal of assets and liabilities	1 086 217	1 243 659
Impairment reversal / (Debt impairment)	109 387 553	30 414 766
Actuarial gain	(6 108 498)	(10 394 900)
Landfil site non cash flow	(395 343)	-
Changes in working capital:		
Inventories	(548 946)	1 111 308
Receivables from exchange transactions	(37 468 603)	(43 031 651)
Receivables from non exchange transactions	(8 206 041)	(38 011 863)
Payables from exchange transactions	2 774 398	23 699 249
Payables from non- exchange transactions	(6 411 556)	-
VAT	18 344 180	9 310 238
Unspent conditional grants and receipts	(6 957 973)	8 684 481
Consumer deposits	281 315	18 044
Provisions	1 589 599	28 394 506
Employee benefit	1 800 483	(1 969 243)
	58 225 284	**(24 458 301)**

37. COMMITMENTS

Authorised capital expenditure

	2018 R	2017 R
Already contracted for but not provided for		
• Property, plant and equipment	36 054 608	14 019 097
Total capital commitments		
Already contracted for but not provided for	36 054 608	14 019 097

38. RISK MANAGEMENT

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. There has not been any reviews conducted during the year which exposed the municipality to high financial risks. Further quantitative disclosures are included throughout these Annual Financial Statements

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.
The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made. Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

At year end, financial liabilities exposed to interest rate include those other financial liabilities disclosed in Note 15 to the annual financial statements.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable. The municipality is not exposed to credit interest rate risk as the municipality has no borrowings. The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

	2018 R	2017 R

Credit risk

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor (impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelveo credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.
Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:
• The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
• A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
• The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
• The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.
Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.
There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.
The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit risk exposure in respect of the relevant finacial instruments is as follows:

Financial instrument	2018	2017
Receivables from exchange transactions	17 607 518	46 135 276
Receivables from non exchange transactions	20 635 291	25 685 451
Cash and cash equivalents	24 407 697	12 943 044
Payables from exchange transactions	(189 410 048)	(184 507 157)
Other financial liabilities	(54 747 514)	(55 832 375)

39. UNAUTHORISED EXPENDITURE

Unauthorised expenditure	356 609 247	258 664 927
Expenditure for the year	104 871 661	97 944 320
	461 480 908	**356 609 247**

	2018 R	2017 R

The municipality incured unauthorised expenditure due to non cash items that were under budgeted for during the current year due to completed assets which were still recorded as wip.

Debt Impairment: During the year, the municipality reviewed its age analysis and identified some debtors to be written off.

Finance costs: Finance costs for landfill site were more than budgeted for, as budget was based on prior year figure

40. FRUITLESS AND WASTEFUL EXPENDITURE

	2018 R	2017 R
Fruitless and wasteful expenditure	11 651 779	10 998 668
Incurred - current year	9 028 107	6 624 295
Wriiten off during the year	(8 441 159)	(5 971 184)
	12 238 727	**11 651 779**

These are as a results of interest paid on overdue payments which are not incompliance with MFMA s65(e) which states that all money owed by the municipality be paid within 30days of receiving the relevant invoice or statement and penalties from SARS.

41. IRREGULAR EXPENDITURE

	2018 R	2017 R
Opening balance	183 472 286	128 255 390
Add: Irregular Expenditure - current year	44 393 460	55 216 896
	227 865 746	**183 472 286**

Irregular expenditure was tabled to council and further investigation to be conducted as per Sec 32 report.

Analysis of expenditure awaiting condonation per age classification

	2018 R	2017 R
Current year	44 393 460	55 216 896
Prior years	183 472 286	128 255 390
	227 865 746	**183 472 286**

42. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

	2018 R	2017 R
Opening balance	4 747 643	3 143 602
Current year subscription / fee	2 081 041	1 604 041
Amount paid - current year	(400 000)	-
	6 428 684	**4 747 643**

Balance Unpaid (included in Creditors)

Audit fees

	2018 R	2017 R
Opening balance	12 386 638	11 197 501
Current year subscription / fee	6 429 652	4 809 046
Amount paid - current year	(5 623 187)	(3 619 909)
Amount paid - Doantion By Cogta	(9 668 960)	-
	3 524 143	**12 386 638**

Balanced unpaid (included in Creditors). In terms of section 65 (e) and (f) of the MFMA the municipality must pay all money owing within 30days of receiving the relevant invoice or statement and also comply with all relevant Statutory commitments. The municipality and the Ofiice of Auditor General have entered in a payment agreement plan.

	2018 R	2017 R
PAYE and UIF		
Opening balance	1 470 723	1 358 156
Current year subscription / fee	19 509 745	18 383 598
Amount paid - current year	(19 420 472)	(18 271 031)
	1 559 996	**1 470 723**

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor E Louw	5 419	10 399	15 818
Councillor MJ/L Qotoyi	2 246	8 511	10 757
	7 665	**18 910**	**26 575**

30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor M/VF Nhanha	13 560	-	13 560
Councillor AJ Meyer	4 397	-	4 397
Councillor MJ/L Qotoyi	3 933	-	3 933
Councillor E Louw	813	6 213	7 026
	22 703	**6 213**	**28 916**

30 June 2018	Highest outstanding amount	Aging (in days)
Councillor E Louw	15 818	120
Councillor MJ/L Qotoyi	10 757	120
	26 575	**240**

30 June 2017	Highest outstanding amount	Aging (in days)
Councillor M/VF Nhanha	13 560	30
Councillor AJ Meyer	7 026	120
Councillor MJ/L Qotoyi	4 397	30
Councillor E Louw	3 933	90
	28 916	**270**

43. BUDGET DIFFERENCES

Material differences between budget and actual amounts

Statement of Financial Performance - Revenue

Service charges - due to debt incentive scheme implemented and collecting of debt over 90 days by debt collector.

Rental of Facilities and equipment - most halls that were not functioning were repaired and now are being utilised to generate revenue.

Interest earned – due to debt incentive scheme implemented and collecting of debt over 90 days by debt collector .

Other income from exchange transactions – fewer tenders awarded in 2017/19 which normally generate revenue though determination of tender value and other services.

Interest earned - the municipality depend on grants for investments. Only 3 grants received in the financial year hence under recover.

Licences & Permits – due to the card system was not working for a number of months.

Property Rates - due to debt incentive scheme implemented and collecting of debt over 90 days by debt collector.

Government grant & subsidies - due to emergency disaster grant and other subsidies received and also the fact that we were not sure of the MIG grant allocation to Makana.

Fines, Penalties and Forfeits - most payments were made through magistrate coourt at a reduced rate.

Statement of financial performance: Expenditure

Employee Related Cost - cost cutting measures were implemented especially on overtime and the number of employees that have left to municipal as compared to new appointments.

Remuneration of councillors - cost cutting measures were implemented.

Depreciation and amortisation - asset Conditional assessment was conducted in 2016/2017 and some of the WIP assets and completed and were fully impaired.

Finance Costs – the municipality understated budget for finance costs and incurred more than the anticipated projection and furthermore also the reversal done on Landfil Site Provision..

Operating Lease assets – due to the increased number of new printers that were acquired in the current year including offices that did not have printers.

Impairment reversal - most of debtors in debtors age analysis were not paying their debts and had not made a single payment during the year, hence high provision of impairment

Repairs and maintenance - due to updating of James Kleinhius by ECDC and refurbishment of waainek water treatment work being done

Bulk Purchases - due to high increase in electricity charge by eskom and water leakage due to old water networks.

Contracted Services - due to an increased number of service providers as in the current year.

General expenses - under expenditure due to financial challenges, some of the projects were suspended / not implemented. Cost containment measures and reprioritisation on other expenditure was implemented

	2018 R	2017 R

44. CONTINGENCIES

The known contingent liabilities and assets as at 30 June 2018 are estimated a R46,635,567 for liabilities and R724,419 for assets, for 2016/17 R22,518,432 for liabilities and R311,597 for assets,

Contingent liabilities

Below is a list of possible liability claims where the outcome was unknown as at 30 June 2017 and 30 June 2016 with the maximum unforeseen liability for the municipality:

> Notyawa vs Makana Municipality and others, notice of motion in respect of setting aside of the decision of non appointment to the post of municipal manager. The financial exposure is estimated at R200,000.

Notyawa vs Makana Municipality and one other, rescission application.

Notyawa vs Makana Municipality and others, interim interdict.

> Mncedisi Boma vs Makana Municipality, Matter involves a claim against Mr Boma for over payment of salary not due to him. The financial exposure is estimated at R278,977.

> Phumla Qezu vs Makana Municipality, sued for unfair dismissal. The financial exposure is estimated at R1,600,000

> Samwu vs Makana Municipality, Strike action.The financial exposure is estimated at R80 347

> DWIS vs Makana, lawsuit due to unpaid water invoices. The financial exposure is estimated at R22,415,050.54

> Ginami Trading vs Makana Municipality, claim for water account. The financial exposure is estimated at R532 000

> Mbsa vs Makana Municipality, goods and services rendered. The financial exposure is estimated at R56 605

>Z Nontshinga vs Makana Municipality, motor vehicle accident claim. The finanacial exposure is estimated at R244 500

> Telkom vs Makana Municipality, damage to Telkom cable. The finanacial exposure is estimated at R56 000

> City Square Trading vs Makana Municipality, facts unknown no documentation. The finanacial exposure is estimated at R180 000

> Zeelie Daniel Petrus vs Makana Municipality. The finanacial exposure is estimated at R130,000.

> Minister of Rural Development and Land Reform vs Makana Municipality. The financial exposure is estimated at R200,000.

> Sebata Municipal Solutions vs Amatola Water and Makana Municipality, lawsuit based on breach of contract and undue enrichment. The financial exposure is estimated at R6,974,692.43

> Mthombo resorts vs Makana Municipality, breach of contract and breach of lease. The financial exposure is estimated at R9,300,000.

Mrs Martin vs Makana, facts unkown.

> Mathew Theijsen vs Makana, civil action based on unlawful arrest. The financial exposure is estimated at R200,000.

> Thembankosi Mofu vs Makana Municipality, damages to house contents. The financial exposure is estimated at R15 876

> Sizwe Boyce Maphuma vs Makana Municipality, damages:defamation. The financial exposure is estimated at R450 000.

>Minister of Police vs Makana Municipality, damages to motor vehicle. The financial exposure is estimated at R6 804.

> Olwathaile Onosi vs Makana Municipality, damages. The financial exposure is estimated at R3 128 457.

> Wonga Seti N.O. vs Makana Municipality, damages to house. The financial exposure is estimated at R346 533.

> William Tribe vs Makana Municipality, damages. The financial exposure is estimated at R217 978.

> Hugh Ben David vs Makana Municipality, damages to motor vehicle. The financial exposure is estimated at R21 746.

Contingent assets

Below is a list of possible assets where the outcome was unknown as at 30 June 2018 and 30 June 2017 with the maximum unforeseen asset for the Municipality:

> Municipality vs Naidoo, The estimated financial gain is R 674 419.

> Makana Municipality vs Van Der Mescht, The estimated financial gain is R50 000.

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

45. RELATED PARTIES

Relationships	
Accounting officer	Refer to accounting officer's report
Members of key management	Municipal Manager - Mr M Mene Acting Chief Financial Officer - Ms CL Mani Director Community & Social Services - Mr Kelello Mogoka Director Local Economic Development - Ms Riana Meiring Director Technical Services - Mr Daluxolo Mlenzana Director Corporate and Shared Services Mrs N Mazwayi
Close family members of persons in the service of the state	Fabo Trading CC
Close family members of persons in the service of the state	Makana Development Trust
Close family members of persons in the service of the state	George and Justine cc
Close family members of persons in the service of the state	Sulzer
Close family members of persons in the service of the state	ICT Choice

Related party transactions

	2018 R	2017 R
Purchases from (sales to) related parties		
Fabo Trading CC	-	44 998
Makana Development Trust	185 000	690 763
Sulzer	625 194	-
ICT Choice	377 147	-
George and Justine CC	103 091	-

46. COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification are disclosed in the comparative figure note to the financial statements.

47. PRIOR PERIOD ERRORS

Statement of Financial Position 2017

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Assets					
Current Assets					
Cash and cash equivalents		-	-	-	-
Non-Current Assets					
Property, plant and equipment		816 227 555	10 622 679	-	826 850 234
Total Assets		**816 227 555**	**10 622 679**	**-**	**826 850 234**
Liabilities					
Current Liabilities					
Payables from exchange transactions		184 743 502	4 111 298	-	188 854 800
Payables from non-exchange transactions		24 857 190	(1 138 285)	-	23 718 906
Provisions		3 894 380	27 199 758	-	31 094 138
VAT payable		14 292 288	(3 520 851)	-	17 813 139
		227 787 360	**26 651 920**	**-**	**261 480 983**
Total Liabilities		**227 787 360**	**26 651 920**	**-**	**261 480 983**
Net Assets		**588 440 195**	**(16 029 241)**	**-**	**565 369 251**
Net Assets					
Accumulated surplus		750 053 316	(23 070 944)	-	726 982 372

VAT Payable

Vat Payables has been restated due to the vat suspense account previously misstated in the prior years for Input and output suspense.

Property Plant and Equipment

Property, Plant and Equipment has been restated due to the correction of the correction of landfill site.

Accumulated Surplus

Accumulated surplus was restated to account for corrections on assets,liabilities and expenditure.

Payables from exchange transactions

Payables from exchange transactions were restated due to due to a double entry of retention raised and also Salga invoice to other creditors.

Payables from non-exchange

Payables from non-exchange transactions has been restated due to the correction of leave provisions.

Provisions

The provision has been restated due to the correction of the provision for rehabilitation - landfill site.

Notes to the Annual Financial Statements for the year ended 30 June 2018

	2018 R	2017 R

Statement of Financial Performance for the year ended 30 June 2018

	Note(s)	Audited R	Prior year adjustments R	Reclassifying adjustments R	Restated R
Revenue					
Revenue from exchange transactions					
Service charges		233 668 688	(3 520 851)	-	224 896 527
Expenditure					
Employee related costs		179 624 880	(1 138 285)	-	178 486 595
Impairment loss/ Reversal of impairments		(531 585)	-	30 946 351	30 414 766
Impairment losses		30 946 351	-	(30 946 351)	-
Contracted services		35 553 113	4 347 643	-	39 900 756
Total expenditure		**245 592 759**	**3 209 358**	**-**	**248 802 117**
Operating surplus		**479 261 447**	**(311 493)**	**-**	**690 502 665**
Surplus for the year		**479 261 447**	**(311 493)**	**-**	**690 502 665**

Employee costs

Employee costs has been restated due to the correction of leave provisions.

Service Charges

The service charges were reduced due to incorrect vat account incorrectly mapped to revenue service charges.

Depreciation and Impairment

Depreciation has been restated due to correction of property, plant equipment costs and disposal made.

Finance costs

Finance costs has been restated due to landfil site interest restatement.

Loss / (Gains) on Disposal of Non-Current Assets

Loss / (Gains) on Disposal has been restated due to correction of property, plant equipment costs and disposal made.

Contracted Services

Contracted services has been restated due to invoice to correct prior figure for Salga creditor.

48. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

During 2017/18 and 2016/17 financial year the following goods and services were procured deviated from the provisions of paragraph 12(1)(d)(i) as stated above but in line with paragraph 36 of SCM regulations. The reasons for these deviations from normal SCM regulations were documented and reported to the accounting officer who considered and subsequently approved them:

Classification of deviations	**2018**	**2017**
Sole Supplier	796,528	295,260
Emergancy	2 926 475	1,700,484
Other	1 403 762	1,250,121
Total	**5,099,765**	**3,245,865**

Ratification

Ratification in terms of MFMA SCM regulation 36 (i)(b)&(2)

The Acting Municipal Manager Mr T Pillay ratified non-compliance done by BAC during Adjudication and appointed WK Construction for Alicedale sewerage upgrading tender for R20 494 927.23 (MLM/2016/17/IMFRA/007)

49. BULK ELECTRICITY WATER LOSS

Electricity: 2018	Purchased during the year	Sold during the year	Unaccounted for
units (kWh)	108 343 113	(94 040 688)	14 302 425

Calculated as follows:	%	Distribution	Value
Bulk	13,00 %	94 040 688	51 504 734

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

Water Losses	Lost units	Cost per KL	Value
Unaccounted water losses	3 690 747	4,01	14 815 765

Water losses occur due to inter alia, leakages, tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections.The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repaired as soon as they are reported. Water losses for the financial period amounted to 76% of water produced. The Rand value of the water losses for the period ending 30 June 2018 is R14 815 765,02

Electricity 2017	Purchased during the year	Sold during the year	Unaccounted for
units (kWh)	127 100 307	(108 554 566)	18 545 741

		2018 R	2017 R

Calculated as follows:	%	Distribution	Value
Bulk	13,00 %	108 554 566	94 548 994

Electricity losses occur due to inter alia, the tampering of meters, the incorrect ratios used on the bulk meter, fault meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meter and illegal connections is an ongoing process, with regular action being taken against defaulters.

Water Losses	Lost units	Cost per KL	Value
Unaccounted water losses	3 263 393	4,79	15 631 653

Water losses occur due to inter alia. leakages, the tempering of meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of meters to find faulty meters and repair them. The treated water was only recorded from October 2013 hence the outcome as indicated above.

50. EVENTS AFTER THE REPORTING DATE

1There were no events identified after the reporting date.

51. CHANGE IN ESTIMATE

Property, plant and equipment

The useful life of the certain items of Property, Plant and Equipment was revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R1,287,805 and changed the depreciation in the future period as set out in the below table.

Intangible Assets

The useful life of the certain items of Intangible Assets revised during the current financial year. The effect of the revision has decreased the depreciation charge in the current financial years by R96,625 and changed the depreciation in the future period as set out in the below table.

Depreciation	**2018 R**	**Future period R**
Decrease in PPE depreciation	(1 287 805)	(808 845)
(Decrease) / increase in Intangible depreciation	(96 625)	109 218
	(1 384 430)	**(699 627)**
Assets		
Increase in Property, plant and equipment	1 287 805	808 845
(Decrease) / increase in Intangible depreciation	96 625	(109 218)
	1 384 430	**699 627**

52. GOING CONCERN

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the treasury will continue to provide funding for the ongoing operations for the municipality
The municipality is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account governments' grants. The key financial risks identified include:

-an inability to pay creditors within due dates

-negative key financial ratios

-net current liability was realised

The actions taken by management to mitigate the impact of these risks include:

-The municipality has signed payment plans with its top creditors.

-The municipality's Equitable Share is committed to pay long outstanding debts

-Budget controls are in place to ensure that over- expenditure is eliminated

-The treasury will continue to provide funding to the municipality in the foreseeable future.

-Management are also investigating alternative funding sources to supplement government funding

-Council of the municipality has approved cost cutting measures in line with circular 82 of the MFMA wherein cost drivers like catering is not done at all, accommodation is only approved by the Accounting Officer,

-The municipality is in a process of implementing two catalyst projects and installation of smart meters.